

Hobbies

Federal Trade Commission chastises coin-grading service

By Roger Boye

The nation's largest coin-grading service has agreed to run disclosures in its advertisements and take other actions following an investigation of its business practices by the U. S. Federal Trade Commission.

Last month, the Professional Coin Grading Service, Inc., of Newport Beach, Calif., entered into a consent decree with the FTC without admitting to any allegations contained in a FTC complaint. Among other things, the complaint accused the PCGS of misleading consumers by falsely claiming that it provides consistent, objective grading of rare coins.

David Hall, PCGS chief executive officer, said the complaint

contains some untrue allegations but that PCGS signed the consent decree to avoid an expensive, drawn-out legal battle.

"We believe the requirements set forth in the decree are very reasonable," Hall said on Tuesday. "We intend to make disclosures a permanent part of our advertising."

For several years the FTC has been investigating the rare-coin industry in an attempt to reduce deception and fraud. The FTC's latest action suggests that coin companies should be careful about what they say in their promotions and advertisements.

Several hobby pros formed the PCGS in 1985 to evaluate rare coins owned by dealers and investors. For a fee, PCGS will authenticate a coin as genuine, evaluate its condition, assign it a

"grade" and encase the rarity in a hard-plastic "slab."

Since February 1986, PCGS has examined in excess of two million coins, more than all other such services combined. Some PCGS "slabbed coins" have traded on a sight-unseen basis, so confident are investors that the coins are consistently and fairly graded.

PCGS has claimed in its ads and promotions that it offers "a permanent grading standard—a grading standard that will never change" and that a collector can buy PCGS-graded coins and "be totally certain they are accurately graded," according to the FTC. (The value of an exceedingly rare coin can change dramatically with even the slightest variation in its assigned grade.)

But the FTC says that coin

grading involves some subjectivity and that the rare-coin market is highly speculative and subject to risk. Under the consent decree, for two years PCGS ads and promotions must carry a disclosure statement: "Certification by PCGS does not guarantee protection against the normal risks associated with potentially volatile markets."

Also, the government believes that PCGS-graded coins cannot necessarily be sold at reasonable, competitive prices. The decree stipulates that PCGS must make clear that the "degree of liquidity for PCGS certified coins will vary according to general market conditions and the particular coin involved. For some coins, there may be no active market at all at certain points in time."

FTC attorney Pamela J. Wood, FTC attorney in the case, said the FTC does not accept consent

decrees unless it has reason to believe violations have occurred. The decree—which settles the FTC complaint and legal action—prohibits PCGS from claiming its grading is objective, consistent or unbiased, if such representation is contrary to fact.

In a telephone interview, Hall said that PCGS cooperated with the FTC in its investigation and that PCGS would have fought the complaint in court "had the FTC asked us to pay (customer-redress fines)."

Meanwhile, PCGS is certifying at least 50,000 coins a month, down from the 70,000-a-month average earlier this year, and business is off at other coin-grading services, too. Hall blames the drop on a sluggish market for certain types of slabbed coins rather than to investor concern over news of the consent decree and FTC complaint.